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Decision 84 03 016 March 7, 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Lois Jane Gillham et al. Complainants, vs. Ponderosa Telephone Company, Defendant.	Case 83-06-14 (Filed June 28, 1983)
In the Matter of the Application of THE PONDEROSA TELEPHONE CO. to increase certain intrastate rates and charges applicable to telephone service furnished within the State of California.	Application 83-08-39 (Filed August 15, 1983)

Lois J. Gillham, for herself and other complainants in Case 83-06-14.
Pelavin, Norberg, Harlick and Beck, by William R. Haerle, Attorney at Law, for The Ponderosa Telephone Company, applicant and defendant.
Patrick Gileau, Attorney at Law, and John P. McCarroll, for the Commission staff.

INTERIM OPINION

I. INTRODUCTION

Summary

After hearings, Ponderosa Telephone Company (Ponderosa) is awarded $375,000 in interim rate relief for test year 1984, amounting to a 16.6% increase including certain increases from "unbundling" rates, to stem operating losses ($73,532 net loss for the first nine months of 1983 and estimated at present rates as approximately $300,000 for 1984). An interim rate of return of 7% is authorized.

Consideration of installation of optional calling measured service (OCMS) in the Auberry exchange, the subject of Case (C.) 83-06-14, is deferred until the final opinion, when rate design changes will be considered generally.

Description of Applicant

Ponderosa is an independent telephone company serving approximately 4,600 customers in Madera and Fresno Counties, in an area of widely varying terrain between the City of Fresno and Yosemite National Park. Its principal place of business is in O'Neals, Madera County.

Ponderosa is a closely held family corporation. All the stock of the corporation at the time of the filing of the 1982 annual report was held by four persons. R. F. Bigelow, one of them, died in 1983 and his shares are in the estate. Another principal stockholder, Mrs. E. L. Silkwood, serves as President. Preston Ewing, who is not a stockholder, is the company's General Manager. (A further review of the capitalization of the company is contained in the rate of return discussion.)

The company's presently authorized 4% rate of return was apparently authorized by an advice letter in 1958 and confirmed in Decision (D.) 69634 (August 31, 1965, A.45538).

History of Proceeding

On June 28, 1983, Lois J. Gillham and several hundred subscribers of the Auberry exchange filed C.83-06-14, complaining of excessive telephone bills and requesting OCMS on the basis that the nearest full service community is Fresno, and present available service makes every call to Fresno a toll call. The complaint also requests itemization of OCMS calls.

On August 15, 1983, Ponderosa filed Application (A.) 83-08-13, seeking general rate relief, including an increase in rate of return.

The case and application were consolidated, and hearings on the complainants' evidence and on Ponderosa's request for interim relief were held in Fresno before Administrative Law Judge (ALJ) Meaney in the afternoon and evening of November 30 and the morning and afternoon of December 1, 1983. Several customers testified at length on the OCMS issue, and about 40 persons attended the November 30 hearing.

The question of interim relief was submitted at the conclusion of the hearings. Complainant Gillham requested in her closing argument that OCMS be ordered as soon as possible pending full rate design studies.

II. INTERIM RELIEF FOR COMPLAINANTS

Positions of the Parties

In her closing argument, complainant Gillham stressed the long history of the problem and requested that OCMS be ordered as soon as possible pending full rate design studies.

Ponderosa and the Commission staff argued that the issue is not really one for a separate complaint but should be part of general rate design studies. They moved that the ALJ defer the issue until later hearings on final rate relief (scheduled for March) so that full evidence could be presented. The company's position is that assuming OCMS should be ordered, this cannot be done without adjusting rates in some other manner to avoid unreasonable losses.

The ALJ commented that disposing of the request for interim relief in C.83-06-14 by way of a "ruling" exceeded the scope of his authority, and stated that the issue would be presented to the Commission in this interim decision.

Discussion

We need not decide this issue as a mere matter of form. An allegedly unreasonable rate design is a proper subject of a complaint which contains the 25 or more signatures required for rate complaints by Public Utilities (PU) Code § 1702. We have sometimes dismissed such complaints as untimely when there has been a recent rate increase proceeding, but here, Gillham et al. filed their complaint before Ponderosa filed its application, and there has been no previous general rate increase proceeding for many years.

As a matter of substance, however, consideration of OCMS for the Auberry exchange must be deferred until full rate design proposals are available. We agree with Ponderosa and the staff that granting OCMS without analyzing the entire rate structure simply results in lower revenues from one of the company's exchange areas. OCMS is not a tradeoff in revenues unless the base bill is substantially higher for those customers selecting it, because toll revenues decrease without an offsetting increase in base rates. Each subscriber, where OCMS is available, quite properly chooses that rate form which best suits his or her needs. The customer making few out-of-exchange calls remains on regular service and pays the lower base bill; the high-volume toll customer chooses OCMS and pays a somewhat higher base rate but substantially lower-toll charges.

We are aware that in Lechman v Ponderosa Tel. Co. (C.10976; D.82-03-15, March 2, 1982) a form of OCMS was placed into effect in the Friant exchange,[1] and that in Gillham v. Ponderosa Tel. Co. (C.11016,D.82-08-12, August 4, 1982) an OCMS study was ordered. Lastly, we are not overlooking the testimony of Gillham and other witnesses from the Auberry exchange concerning their telephone billing problems. This testimony will be reviewed in detail in the final opinion. We must consider the effect on company revenues, and the only proper way to do this is to examine rate design as a whole rather than on a one-exchange-at-a-time basis.

We will therefore not order Ponderosa to place OCMS into service on an interim basis in the Auberry exchange.

III. INTERIM RATE RELIEF

Rate of Return

The application requests interim rate relief in the form of an intrastate billing charge of 39.8%, calculated to provide proposed rate relief of $900,000 annually. Much of Ponderosa's request stems from a proposed rate of return increase from 4% to 8.71% ("Step 1 increase") and to 10.26% ("Step 2 increase"), as shown in Exhibit 11, Table 5-2.[2]

Terry R. Mowrey, a staff financial examiner, analyzed Ponderosa's request from an interim standpoint, based upon the application, its recorded financial statements, and its capital projections. His analysis (staff's interim report, Ex. 12, Appendix A) reads:

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1 However, that exchange has only about 300 customers, about 75 of whom are on OCMS, while Auberry has 1,400 customers.

2 The results of operation material is attached to the application. The company witness, Preston Ewing, made certain minor corrections to the application and its appendices. Exhibit 11 consists of the corrected application and appendices.

"Ponderosa is currently authorized a 4% rate of return on its intrastate operations. This rate, authorized in 1958, is obviously too low because it does not allow the company to even cover its interest costs. If rates were established which would provide a 7% return, this would result in an equity return of 17.28% based on above capitalization and capital costs. This equity return is consistent with recent recommendations for small, highly leveraged telephone companies.

"Therefore, if interim rate relief is authorized for Ponderosa, we would recommend that a 7% rate of return be used for setting rates until such time as a complete showing is made in conjunction with the general rate case.

"Ponderosa sustained a loss of approximately $75,000 in 1982 and based on its first five months of operations in 1983 it is projected that the company will incure losses approaching $300,000 in 1983 at current rates.

"We have projected Ponderosa's capitalization and capital costs based on an average 1983 capital structure for interim rate relief purposes. The following tabulation shows that Poderosa's interim request of an 8.71% rate of return will result in a return on equity of 38.40%:

	Ratio	Cost	Weighted Cost
Long-Term Debt	85.99%	6.11/%	5.25%
Preferred Stock	5.91	6.00	.35
Common Equity	8.10	38.40	3.11
Rate of Return			8.71%

"Ponderosa's extremely highly leveraged capital structure, comprised of over 90% relatively low cost debt and preferred stock, warrants an equity return higher than that which would be considered reasonable for a typical telephone utility. However, we believe an equity return of 38.40% is excessive, especially on an interim basis."

A. H. Pelavin, one of the attorneys for Ponderosa, testified that the unusual capital structure of Ponderosa and other small, family-owned telephone companies some of whom he and his law firm represent, stems from estate tax and estate planning problems which must be considered as a part of the business decision-making process.

The present capital stock structure consists of 6,606 shares of common stock and 79,272 shares of preferred stock. According to Mr. Pelavin this structure was created to minimize taxes. This was pointed out to the Commission in the various applications authorizing the stock issuance.[3] Low-dividend paying preferred stock causes substantial reduction of the book value of the common stock. By allowing older-generation family members to retain only preferred stock, with its fixed redemption value, the value is fixed for estate tax purposes as well (i.e., growth of estate tax liability is eliminated).

According to Pelavin, the preferred stock does not constitute, in its dividend rate, a reflection of the cost of capital. It is not, he said, what the market would have caused to be the dividend rate on such an issue of stock.

When the 6% preferred stock was authorized in 1974, (see footnote 3), in round figures Ponderosa had total assets of $3,800,000, with a debt of $2,700,000 and the debt, according to Pelavin's testimony, was subject to increase because of growth. The small companies, he said, were "normally running between 70% and 95% debt under REA financing." (Tr. 179). The result is, according to the witness, a disadvantage which he termed "inverse leverage"

[3] Ponderosa Tel. Co., A.55269, D.83736 (October 28, 1974); Siskiyou Tel. Co., A.54755, D.82720 (March 27, 1974; Volcano Tel. Co., A.57383, D.87678 (August 9, 1977). See Exhibits 13-18.

because when the company is in a loss position there is only a very small stock "buffer" and any loss unduly impacts the company. (See, generally, Tr. pp. 172-186.)

On this record we accept the staff's recommendation. While witness Pelavin's testimony was enlightening on the history of the capital structure, it was not coupled with any technical financial analysis on Ponderosa's part. There is nothing on this subject in the appendices to the application, and neither Preston Ewing, the company's president, nor Roger Barker, its accountant, both of whom testified for Ponderosa on its results of operation, added anything on the subject.

It is too elementary to require citation of authority to state that an applicant bears the burden of justifying rate increases, including increases in rates of return. Nor in the interest of avoiding misunderstanding and delay should an applicant simply wait for the staff recommendations and then seek to rebut them. If Ponderosa wishes a rate of return other than what the staff may propose in the final phase of this proceeding, it should present its own direct expert technical showing on the subject. In doing so it may renew its arguments on the company's unusual capital structure and how this should affect our decision.

On the present record we agree with the staff witness's analysis, quoted above, and will authorize an interim 7% return on rate base.

Results of Operation

Staff analysis of recorded information demonstrates that Ponderosa experienced a net operating loss for the nine recorded months of 1983 through September 30 of $73,532. With no rate increase, it is estimated that the 1984 operating loss would be approximately $300,000.

Exhibit 13, the staff's interim report on Ponderosa's results of operations, summarizes company-staff differences as follows (incorporating minor corrections read into the record by staff witness John McCarroll):[4]

"1. Rate of return. Staff is proposing a 7% intrastate rate of return (See Appendix A.) This has a significant impact on revenue requirement.

"2. The company airplane. Staff is removing $43,181 from rate base and $16,090 from operation expenses which was booked to the airplane and not shown to be necessary.

"3. Inflation rates. Staff is removing $21,800 from operating expenses because the company used a nonlabor inflation rate of 15% increase for 1984 over 1982 levels for certain items. A 10% increase is more reasonable. (See Appendix D, Table A).

"4. Vehicles. Staff is removing $26,199 from rate base for luxury vehicles which it believes are unnecessary.

"5. Wage increases. Ponderosa gave a 7 1/2% wage increase to its employees in 1983. It has included another 7 1/2% wage increase, as well as salaries for three vacant positions, in its 1984 test year showing. Given the 7 1/2% wage increase in 1983, the company's financial loss position, and the "emergency" nature of this interim increase, the staff finds another wage increase inappropriate. It has removed $69,313 from rate base and $125,700 from Operating Expenses to reflect this and the salaries for currently vacant positions.

"6. Depreciation. The staff believes the company's projected total life of 12 years for new digital central office equipment is too short and places an undue burden on the ratepayers. A 15 year life is more

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[4] References in the recommendations are to Exhibit 13.

reasonable. Likewise for station apparatus, the staff is recommending a 10 year life as opposed to the company's 7 year projected life.

"7. Transmission Power. Staff has reduced this expense by $22,880 based on latest known figures.

"8. Toll revenues. Staff has modified intrastate toll revenues because the company has used an inappropriate rate of return to compute revenues from toll settlements.

"9. Separation of intrastate expense. Staff removed $18,600 from intrastate depreciation expense because the company allocated too much depreciation expense to intrastate operations.

"10. Legal Expense Services. Staff removed $18,700 from General and Licenses. See Chapter 3, Item 14 for detail.

"11. Traffic Expense. Staff removed $3,600 based on latest PTT-Ponderosa contract and station count.

"12. Other. Staff is removing $13,100 from Operating Expenses for a cabin at Shaver Lake, duplicative billings, donations, non-recurring accounting expenses, and unsubstantiated expenses. See Chapter 3 for detail."

Item 1, rate of return, was discussed previously. Ponderosa stipulated to recommendations 7 and 11. Regarding the remaining items, except as discussed hereafter, we find ourselves in the same position as with the rate of return. While the revised application (Ex. 11) contains tabular breakouts and general narrative, and while company witnesses Ewing and Barker offered some general testimony and answered questions on cross-examination, on this record we must adopt the staff recommendations for interim relief.

<u>Wages</u>. Ponderosa has 48 employees. Staff contests inclusion of a 7 1/2% salary increase on the basis that there was a recent previous increase effective January 1, 1983. Staff also objects to including wages of three positions which are not filled.

Ewing testified that an informal survey showed that Ponderosa's wage scale was below all of the surrounding companies for technicians. He testified he investigated the salaries of the following telephone companies: General, Sierra, Mariposa, Siskiyou, Evans, Livingston, and Pacific. He said that most of Ponderosa's technicians had been recently trained at considerable expense in digital technology and it is important to retain them.

Regarding the unfilled positions, Ewing testified that these are as follows:

Plant manager	$50,000[5]
Executive secretary	18,000
Cable splicer	25,000+1,250 overtime

The first two positions are new; the third is simply a vacancy.

Because of its financial condition, the company has not placed the planned salary increases into effect and has not hired to fill the vacancy, or the new positions.

We believe that Ewing's testimony demonstrates the prudence of the salary increase and it should be allowed. Staff offered no survey of its own demonstrating that the new wage rates are excessive. Since the company is not now paying these rates, we will expect evidence in the final phase of this proceeding which demonstrates they have been placed into effect.

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[5] Salary figures were provided by witness Barker (Tr. 151). Salaries for the new positions are approximations and subject to negotiation.

For wage estimation, we will allow the cable-splicer position to be included since that is simply a vacancy, and will exclude the two new positions for interim purposes. Ponderosa may present more definite testimony on the new jobs during the forthcoming hearings.

Motor Vehicles. In addition to the usual utility vehicles, Ponderosa owns a 1981 Lincoln Continental and a 1982 Mercury Marquis. The former is for the use of Mrs. E. L. Silkwood, the company's president, and the latter is used by Ewing and the company staff, primarily by Ewing.

On cross-examination, Ewing said that Mrs. Silkwood participates in the management of the company. From his general testimony on the subject it appears that her activities are simply those of overseeing the company from the viewpoint of protecting her (and the other stockholders') investment. Based on his testimony, she cannot be considered as performing the duties of an operating official. It also should be noted that she lives across the street from the company's office and does not need the car to visit it. Therefore, the expense of this car should be borne by the stockholders.

Concerning the Mercury, Ewing testified it was "at times" used personally by him but almost always for business. He said that to get rid of the Mercury and use a company utility vehicle would inconvenience himself and another employee. Finally, Ewing pointed out that the company only paid $11,000 for the Mercury, and that at today's prices, this is reasonable.

Ewing's testimony convinces us that the expenses connected with the Mercury are allowable. We are certain Ponderosa's management understands that, when it is time to replace it, the cost of a car of like kind may be excessive for ratemaking purposes.

Other Results of Operation Issues. We are adopting, for interim purposes, staff development of depreciation and toll revenues. We recognize that these are important issues and, given more time, both company and staff would have developed fuller presentations. Further evidence on these subjects at the forthcoming hearings is welcome.

Although the parties neglected to discuss this point, we are authorizing a "bill and keep" provision for the surcharge in order to assure Ponderosa of sufficient interim revenues. This has been customary in recent rate increase orders. (Cf. Citizens Utilities Co., A.82-09-52, D.83-10-092, October 19, 1983.)

The table which follows shows the results of operation estimates of Ponderosa and the staff, and the adopted interim results.

The Ponderosa Telephone Company

Summary of Earnings at Present Rates, Test Year 1984

Intrastate Operations

Account	Staff	Utility	Adopted
Operating Revenues			
Operating Revenues After Uncollectibles	$ 3,618,100	$ 4,401,800	$ 3,702,900
Operating Expenses			
Maintenance	827,400	933,300	862,000
Traffic	20,500	23,800	20,500
Commercial	142,400	150,200	147,600
General Office	371,800	418,600	387,900
Other Oper. Exp.	473,800	510,100	482,600
Subtotal Oper. Exp.	1,835,900	2,036,000	1,900,600
Depreciation Exp.	791,100	960,700	799,800
Taxes Other Than on Income	130,700	135,800	131,800
Taxes on Income	56,000	265,200	61,200
Total Oper. Exp.	2,813,700	3,397,800	2,893,400
Net Operating Income	804,400	1,004,000	809,500
Rate Base	11,536,400	11,520,400	11,556,600
Rate of Return	7.0%	8.7%	7.0%
Revenue Requirement	$345,000	$900,000	$375,000

(Red Figure)

Rates and Tariffs

As is customary with an interim rate increase request, there is no proposal to revise rates generally. Company and staff agree that any rate increase should essentially be placed into effect by way of a simple billing surcharge, except for unbundling single-line instruments from basic access rates.

Ponderosa is one of the few companies remaining in California which has not unbundled its single-line rates. Staff points out that the advantage to unbundling at this time is that customers have some incentive to reduce their bills by purchasing terminal equipment. Staff considers increases in multi-element service charges advisable because the higher rates more correctly reflect costs, and because such increase helps hold basic monthly rates down. The net effects of unbundling also leaves a somewhat smaller amount to be recovered on a straight surcharge basis. It also results in a minor shift of some of the pushbutton handset premium from the pushbottom calling service tariff to the supplemental equipment tariff (adjustments are less than a dollar per customer.).

On the above basis, the adopted interim increase of $375,000 is spread as follows:

Increase from unbundling single-line instruments	$ 70,000
Increase from multi-element service charges	12,000
Shift of some of pushbutton service revenue to supplemental equipment tariff	(2,000)
Subtotal	80,000
Revenue requirement to be placed in billing surcharge	295,000
TOTAL	375,000

No net-to-gross multiplier calculation was employed for interim purposes because Ponderosa paid no taxes in 1983.

We agree with the staff development of interim rates, with which Ponderosa concurs. A table follows which illustrates actual differences in rates for single-line and party-line residential customers, and business service.

	Present	Adopted
Access Charges		
Residential 1-Party	$5.50	$5.50
Residential 2-Party	4.50	4.50
Res. Suburban 4-Party	4.25	4.25
Business 1-Party	8.50	8.50
Business 2-Party	6.50	6.50
Bus. Suburban 4-Party	6.00	6.00
Instrument Charges		
Rotary Desk, Wall	-	1.30
Touch Desk, Wall	-	2.00
Surcharge (Intrastate Billing)	-	13.0%

As an example, a residential single-party customer with a rotary telephone now pays $5.50 per month (plus a mileage rate, if applicable). If the phone is still rented from the company at $1.30 per month, the customer will pay $7.68 per month (including the 13% surcharge), plus 13% more on mileage and intrastate toll calls.

Service Complaints

Most of the persons attending the hearings who identified themselves as Ponderosa's customers were concerned about the OCMS issue in the complaint. There were isolated complaints relating to slow response on service calls, and inconsiderate treatment in billing disputes. One witness testified to a problem with ringing when no party is on the line, and of difficulty in arranging with the company to fix it. Another said he lives in Burrough Valley, a rural area, and it took him 18 months to have a phone installed even though he offered to pay for the expense of installing 300 feet of line necessary to reach his house.

Some of the OCMS witnesses testified that service had improved and was generally satisfactory.

There appear to be no categorical service problems requiring resolution at this time. Company should investigate the particular service problems brought to our attention and report upon them at the final hearings.

Findings of Fact

1. For the first nine months of 1983, Ponderosa experienced a net operating loss of $73,532, and at present rates would experience a 1984 calendar year operating loss of about $300,000.

2. Ponderosa's presently authorized intrastate rate of return of 4% is unreasonably low, and an interim rate of return of 7% is reasonable.

3. Adjustments to Ponderosa's estimated 1984 results of operation in the staff's Exhibit 13 (summarized in opinion) are, for interim purposes, reasonable, except as follows:

a. A 7 1/2% wage increase for the test year is reasonable, excluding the two new positions (plant manager and executive secretary) in calculating total wages.

b. It is reasonable to include expense associated with the 1982 Mercury automobile.

4. Staff's rate design, which places most of the interim increase in a billing surcharge and the remainder in tariff changes from unbundling and from an increase in multi-element service charges, is reasonable.

5. A "bill and keep" provision on the surcharge portion of the increase is necessary to assure Ponderosa adequate interim revenues.

6. Ponderosa's service is generally satisfactory, although there are isolated examples of inconsiderate treatment of customers in billing disputes, and occasional unreasonable delays in installation or repair.

Conclusions of Law

1. The issue of OCMS for the Auberry exchange and any other major rate design changes should be reserved for the final opinion in this proceeding.

2. Ponderosa should be authorized an interim rate of return of 7%, with a "bill and keep" provision on the surcharge.

3. The adjustments to Ponderosa's estimated 1984 results of operation as shown in Finding 3 should be adopted.

4. Staff's recommended rate design should be adopted as adusted to reflect the adopted results of operation.

5. Ponderosa should be ordered to report in the forthcoming hearings on service complaints brought to our attention in the interim hearings.

6. Because of Ponderosa's continuing net operating losses, the rates authorized by this decision should be effective immediately.

INTERIM ORDER

IT IS ORDERED that:

1. The Ponderosa Telephone Company (Ponderosa) is authorized to file with this Commission, not less than five days after the effective date of this order, and in conformity with General Order 96-A, revised tariff schedules with rates, charges, and conditions as set forth in Appendix A. The effective date of the revised tariff schedules shall be five days after the date of filing. Revised tariff schedules shall apply only to service rendered on and after the effective date of the tariffs. These rates shall remain in effect until further order.

2. Ponderosa shall furnish the Commission with evidence on consumer service problems and their solutions in the forthcoming hearings.

This order is effective today.

Dated MAR 7 1984, at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Leonard M. Grimes, Jr., being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director

APPENDIX A

Rates and Charges

The rates and charges of The Ponderosa Telephone Company as set forth below are authorized:

Supplemental Equipment (Schedule No. A-8)	Rate Per Month
Slenderette Telephone Set:	
Each Rotary Dial	$ 2.50
Each Touch Calling Dial	3.20
Utility-provided Telephone Sets:	
Rotary Dial	1.30
Touch Calling Dial	2.00
Touch Calling Service (Schedule No. A-19)	
Individual Access Line Service	
1. Each business line or trunk arranged	1.00
2. Each residence line arranged	1.00
Multi-Element Service Charges (Schedule No. A-21)	Nonrecurring Charge
Elements for new and additional service, move and changes and in place connections:	
a. Service Ordering	
1. For connecting new or additional service (i.e. central office lines), each line or trunk	$12.00
2. For moving or changing existing service and equipment or adding new or additional service and equipment other than central office lines (including record changes), per service order	6.00
b. Central Office Connection Work, per line	12.75
* c. Premises Visit Charge	
O'Neals, North Fork, & Friant Exchanges	25.00
Big Creek, Auberry, & Shaver Lake Exchanges	35.00
d. Other Equipment and Wiring:	
Charges for moving, rearranging, or changing of equipment, apparatus or wiring, other than provided above, will be an amount equal to the actual or estimated cost of labor and material used, not to exceed the sum of the initial multi-element service charges and other charges which would apply to a disconnection and new installation of the same entire service and facilities.	
e. Restoration of Service	12.25

* Applicable only when a premise visit is required.

Billing Surcharge (Schedule No. A-25)

Applicability

Applicable to customers' intrastate billing for tariffed services rendered.

Territory

Within the territory served.

Rates	Percentage Rate
Intrastate billing surcharge	13%

Special Conditions

1. The percentage rate applies to each customers' bill for tariffed intrastate services, exclusive of taxes. This surcharge shall not be subject to settlement with Pacific Bell.

(END OF APPENDIX A)

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